

June 2005



North Dakota REV-E-NEWS

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As we examine state revenue collections, it is easy to be impressed by the strength of the North Dakota economy. Biennium to date collections have exceeded the original legislative forecast by nearly \$140 million. Compared to this same time two years ago, current biennium revenue collections are nearly \$277 million higher. Revenue collections already exceed the recently completed March 2005 legislative forecast by over \$20 million. These increased tax collections are led by gains in sales and use taxes as well as individual income taxes, both clear indicators of the growing North Dakota economy.

However, a more objective yardstick with which to measure our state's economic strength may be a comparison to similar states rather than a comparison to our past performance or our own forecast. With that in mind, a recently released *State Revenue Report*, published by the highly regarded Nelson A. Rockefeller Institute of Government, includes the following statistics that clearly show a North Dakota economy that is growing, expanding, and leading the region:

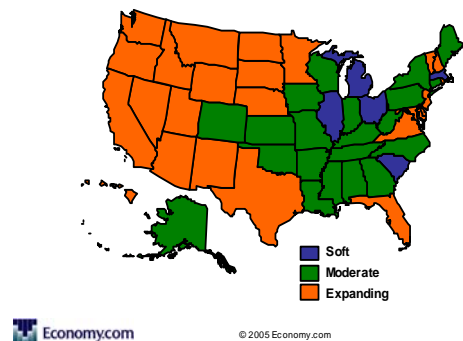
| Economic Indicator | North Dakota | Plains States | U.S. Average |
|--|--------------|----------------|--------------|
| | | Region Average | |
| Percent change in quarterly tax revenue, first quarter 2004 compared to first quarter 2005 ¹ | 13.9% | 8.1% | 11.7% |
| Percent change in quarterly total tax revenue, first quarter 2004 compared to first quarter 2005 | 8.4% | 3.1% | 3.9% |
| Year-over-year percentage change in non-farm employment, first quarter 2004 compared to first quarter 2005 | 2.0% | 1.5% | 1.7% |
| Change in tax revenue, July-March FY 2004 compared to FY 2005 | 12.7% | 5.9% | 9.5% |

¹ Includes personal income, corporate income, and sales taxes

Economy.com, the economic forecasting firm used by the state, confirms that North Dakota is among those states with economies in expansion, as displayed on the following chart:

Soft and Strong Economies

Based on employment and industrial production through April 05



Economy.com

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Oil Activity

Oil production in April fell slightly from the March high of just over 95,000 barrels per day to approximately 92,500 barrels per day. Drilling permit activity also decreased slightly, but remained strong with 31 permits being issued in April, compared with 37 in March. The average price for North Dakota crude decreased slightly

in April to just under \$48 per barrel, compared to the March average of over \$49 per barrel. Current prices are approximately \$53 per barrel. The current rig count is 22, 6 more rigs than were operating one year ago.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2003-05 BIENNIUM
May 2005

| REVENUES AND TRANSFERS | FISCAL MONTH | | | | BIENNIUM TO DATE | | | |
|--------------------------------------|-----------------------------|-------------------|------------------|-------------|-----------------------------|----------------------|--------------------|-------------|
| | March 2003 Leg. Forecast | Actual | Variance | Percent | March 2003 Leg. Forecast | Actual | Variance | Percent |
| Sales Tax | 32,418,000 | 34,967,427 | 2,549,427 | 7.9% | 640,697,000 | 685,681,636 | 44,984,636 | 7.0% |
| Motor Vehicle Excise Tax | 5,544,000 | 5,527,312 | (16,688) | -0.3% | 121,599,000 | 122,145,206 | 546,206 | 0.4% |
| Individual Income Tax | 17,968,000 | 21,575,020 | 3,607,020 | 20.1% | 424,573,000 | 440,747,222 | 16,174,222 | 3.8% |
| Corporate Income Tax | 2,360,000 | 3,443,597 | 1,083,597 | 45.9% | 81,560,000 | 92,484,151 | 10,924,151 | 13.4% |
| Insurance Premium Tax | 4,900,000 | 3,069,274 | (1,830,726) | -37.4% | 54,512,000 | 52,829,771 | (1,682,229) | -3.1% |
| Financial Institutions Tax | 52,000 | 4,275 | (47,725) | -91.8% | 5,172,000 | 4,717,101 | (454,899) | -8.8% |
| Oil & Gas Production Tax* | 1,573,000 | | (1,573,000) | -100.0% | 41,093,000 | 45,534,044 | 4,441,044 | 10.8% |
| Gaming Tax | 1,900,000 | 1,423,637 | (476,363) | -25.1% | 22,978,000 | 20,528,327 | (2,449,673) | -10.7% |
| Lottery | - | - | - | | 280,000 | 1,432,434 | 1,152,434 | 411.6% |
| Interest Income | 446,000 | 376,674 | (69,326) | -15.5% | 10,558,000 | 4,955,847 | (5,602,153) | -53.1% |
| Oil Extraction Tax* | 1,062,000 | | (1,062,000) | -100.0% | 27,805,000 | 25,465,956 | (2,339,044) | -8.4% |
| Cigarette & Tobacco Tax | 1,492,000 | 1,590,623 | 98,623 | 6.6% | 35,165,000 | 37,808,279 | 2,643,279 | 7.5% |
| Departmental Collections | 1,612,500 | 2,546,555 | 934,055 | 57.9% | 51,937,109 | 59,527,823 | 7,590,714 | 14.6% |
| Wholesale Liquor Tax | 480,000 | 475,369 | (4,631) | -1.0% | 11,069,000 | 11,338,918 | 269,918 | 2.4% |
| Coal Conversion Tax | 1,915,000 | 1,938,112 | 23,112 | 1.2% | 45,140,000 | 45,210,252 | 70,252 | 0.2% |
| Mineral Leasing Fees | 300,000 | 3,137,352 | 2,837,352 | 945.8% | 4,365,000 | 10,828,111 | 6,463,111 | 148.1% |
| Bank of North Dakota-Transfer | | | | | 30,000,000 | 30,000,000 | | 0.0% |
| State Mill & Elevator-Transfer | | | | | | | | |
| Gas Tax Admin-Transfer | | | | 0.0% | 1,396,200 | 1,396,200 | | 0.0% |
| Other Transfers | 5,070,373 | 5,036,857 | (33,516) | 100.0% | 85,650,377 | 85,950,332 | 299,955 | 0.4% |
| Total | 79,092,873 | 85,112,084 | 6,019,211 | 7.6% | 1,695,549,686 | 1,778,581,611 | 83,031,925 | 4.9% |
| Federal Fiscal Relief Payments | | | | | | 50,000,000 | 50,000,000 | 100.0% |
| Federal Fiscal Relief -Medicaid FMAP | | | | | | 6,456,581 | 6,456,581 | 100.0% |
| Total Revenues and Transfers | 79,092,873 | 85,112,084 | 6,019,211 | 7.6% | 1,695,549,686 | 1,835,038,192 | 139,488,506 | 8.2% |

* Oil and gas production and oil extraction tax collections totaled \$8.8 million in May. Because the \$71.0 million statutory cap for the 2003-05 biennium has been attained, all May collections will be reserved for transfer to the permanent oil tax trust fund. A total of \$41.6 million is now reserved for transfer to the permanent oil tax trust fund at the end of the 2003-05 biennium and is not reflected in general fund oil tax collections.

COMPARISON TO PREVIOUS BIENNIUM REVENUES
2003-05 BIENNIUM
May 2005

| REVENUES AND TRANSFERS | FISCAL MONTH | | | | BIENNIUM TO DATE | | | |
|---------------------------------------|-------------------|-------------------|-------------------|--------------|----------------------|----------------------|--------------------|--------------|
| | May 2003 | May 2005 | Variance | Percent | 2001-03 | 2003-05 | Variance | Percent |
| Sales Tax | 23,764,794 | 34,967,427 | 11,202,633 | 47.1% | 607,200,051 | 685,681,636 | 78,481,585 | 12.9% |
| Motor Vehicle Excise Tax | 5,280,676 | 5,527,312 | 246,636 | 4.7% | 114,222,722 | 122,145,206 | 7,922,484 | 6.9% |
| Individual Income Tax | 15,558,447 | 21,575,020 | 6,016,573 | 38.7% | 387,358,527 | 440,747,222 | 53,388,695 | 13.8% |
| Corporate Income Tax | 2,067,000 | 3,443,597 | 1,376,597 | 66.6% | 79,777,010 | 92,484,151 | 12,707,141 | 15.9% |
| Insurance Premium Tax | 4,082,955 | 3,069,274 | (1,013,681) | -24.8% | 46,717,729 | 52,829,771 | 6,112,042 | 13.1% |
| Financial Institutions Tax | 27,892 | 4,275 | (23,617) | -84.7% | 6,216,743 | 4,717,101 | (1,499,642) | -24.1% |
| Oil & Gas Production Tax | | | - | | 39,856,219 | 45,534,044 | 5,677,825 | 14.2% |
| Gaming Tax | 1,874,692 | 1,423,637 | (451,055) | -24.1% | 26,948,217 | 20,528,327 | (6,419,890) | -23.8% |
| Lottery | | - | - | | | 1,432,434 | 1,432,434 | 100.0% |
| Interest Income | 39,249 | 376,674 | 337,425 | 859.7% | 6,695,657 | 4,955,847 | (1,739,810) | -26.0% |
| Oil Extraction Tax | | | - | | 22,143,781 | 25,465,956 | 3,322,175 | 15.0% |
| Cigarette & Tobacco Tax | 1,587,526 | 1,590,623 | 3,097 | 0.2% | 37,608,077 | 37,808,279 | 200,202 | 0.5% |
| Departmental Collections | 1,518,499 | 2,546,555 | 1,028,056 | 67.7% | 55,935,063 | 59,527,823 | 3,592,760 | 6.4% |
| Wholesale Liquor Tax | 500,860 | 475,369 | (25,491) | -5.1% | 10,664,418 | 11,338,918 | 674,500 | 6.3% |
| Coal Conversion Tax | 1,965,458 | 1,938,112 | (27,346) | -1.4% | 44,993,708 | 45,210,252 | 216,544 | 0.5% |
| Mineral Leasing Fees | 479,170 | 3,137,352 | 2,658,182 | 554.7% | 6,585,738 | 10,828,111 | 4,242,373 | 64.4% |
| Bank of North Dakota-Transfer | - | | - | | 45,000,000 | 30,000,000 | (15,000,000) | -33.3% |
| State Mill & Elevator-Transfer | - | | - | | | | - | |
| Gas Tax Admin-Transfer | | | - | | 1,363,392 | 1,396,200 | 32,808 | 2.4% |
| Other Transfers | 810 | 5,036,857 | 5,036,047 | 100.0% | 18,819,517 | 85,950,332 | 67,130,815 | 356.7% |
| Total | 58,748,028 | 85,112,084 | 26,364,056 | 44.9% | 1,558,106,569 | 1,778,581,611 | 220,475,042 | 14.2% |
| Federal Fiscal Relief Payments | | | | | | 50,000,000 | 50,000,000 | 100.0% |
| Federal Fiscal Relief - Medicaid FMAP | | | | | | 6,456,581 | 6,456,581 | 100.0% |
| Total Revenues and Transfers | 58,748,028 | 85,112,084 | 26,364,056 | 44.9% | 1,558,106,569 | 1,835,038,192 | 276,931,623 | 17.8% |

* Oil and gas production and oil extraction tax collections totaled \$8.8 million in May. Because the \$71.0 million statutory cap for the 2003-05 biennium has been attained, all May collections will be reserved for transfer to the permanent oil tax trust fund. A total of \$41.6 million is now reserved for transfer to the permanent oil tax trust fund at the end of the 2003-05 biennium and is not reflected in general fund oil tax collections.

Revenue Variances

May revenue collections exceeded the original legislative forecast by \$6.0 million, or 7.6 percent. May revenues exceeded the March 2005 forecast by approximately \$12 million.

Sales and use taxes continue to reflect the strength of the North Dakota economy. May collections exceeded the monthly forecast by \$2.5 million; biennium to date collections exceed the original forecast by \$45.0 million, or 7.0 percent.

Individual income taxes exceeded the original forecast by \$3.6 million, or 20.1 percent. Biennium to date collections exceed the original forecast by \$16.2 million.

Corporate income tax collections again exceeded the original forecast, this month by \$1.1 million. Biennium to date collections now exceed the original forecast by \$10.9 million, or 13.4 percent.

Oil and gas taxes totaled \$8.8 million for May, a reflection of the continuing high price being paid for North Dakota crude oil. The original

legislative forecast included only \$2.6 million for May, based on the much more conservative oil price projection used in that forecast. However, pursuant to NDCC Section 57-51.1-07.2, all oil and gas taxes collected in excess of \$71 million must be transferred to the permanent oil tax trust fund at the end of the biennium. The \$71 million threshold was reached in December 2004. Consequently, the entire amount collected in May has been reserved for transfer to the permanent oil tax trust fund. Through May 2005, \$41.6 million has been reserved for transfer to the permanent oil tax trust fund.

Comments or Questions???

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